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Annual review of the financial situation, 2010

Report of the Administrator

Summary

The present report provides an overview of the financial position of UNDP at the end of 2010. Total income (contributions, interest and other income) rose by 3 per cent to $5.95 billion, from $5.79 billion in 2009. Total contributions increased by 3 per cent to $5.49 billion, from $5.34 billion in 2009. Total expenditures increased significantly, by 8 per cent to $5.99 billion, from $5.53 billion in 2009.

Contributions to regular (core) resources decreased in 2010 to $967 million, 5 per cent below the 2009 level of $1.01 billion. This reduction required UNDP to institute a corresponding reduction in planned core expenditures to avoid drawing on the operational reserve. Consequently, UNDP expenditures related to regular resources decreased by 8 per cent to $1.08 billion, from $1.17 billion in 2009.

Other (non-core) resources contributions increased by 4 per cent to $4.31 billion, from $4.13 billion in 2009. This increase is mainly attributable to programmes in countries with special development situations. The contributions for such programmes grew by 44 per cent to $1.66 billion, compared to $1.15 billion in 2009. Among other resources contributions, contributions from bilateral partners increased by 13 per cent, from $1.56 billion in 2009 to $1.76 billion. Multilateral partners also increased their contributions by 12 per cent, to $1.74 billion, from $1.55 billion in 2009. Local resources provided by programme countries decreased by 4 per cent, from $0.72 billion in 2009 to $0.69 billion. Other resources expenditures amounted to $4.67 billion, a 12 per cent increase compared to $4.18 billion in 2009.

Other or "earmarked" resources represent an important complement to the regular or "unearmarked" resource base of UNDP. In 2010 UNDP was funded by 78 per cent earmarked resources, and 18 per cent from unearmarked resources, with the United Nations Capital Development Fund (UNCDF) and the United Nations Development Fund for Women (UNIFEM) making up the remaining 4 per cent. The ability of UNDP to fulfill its multilateral mandate and deliver effective capacity-building is contingent on sufficient core funding. This core funding allows UNDP to operate as a flexible, forward-looking organization, with the ability to pursue integrated management and programming approaches focused on long-term effectiveness and sustainability.

UNDP coordinates the United Nations system at the country level, and continues to play a vital role in forging development coherence. The value of fund flows to multi-donor trust funds (MDTFs), to joint programmes and to support other United Nations organizations totaled $1.15 billion, compared to $1.78 billion in 2009. The decrease was due primarily to a fall in contributions to multi-donor trust funds and joint programmes, from $1.25 billion in 2009 to $610 million, a drop due in large part to a reduction in contributions to the three largest MDTFs, two of which have fully allocated their resources and are winding down in the coming years.

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This report contains figures for the entire year 2010 for UNIFEM, which was merged into UN-Women on 2 July 2010. Since the UN-Women founding resolution, General Assembly resolution 64/289, states that UN-Women will become operational on 1 January 2011, this is the last time that UNIFEM shall be featured in the present report.

Elements of a decision

The Executive Board may wish: (a) to take note of documents DP/2011/33 and DP/2011/33/Add.1; (b) note the continuing decrease in regular resources, which are necessary for UNDP to fulfil its mandate, to preserve its multilateral, impartial and universal character, and to provide an adequate and secure regular funding base; (c) to urge all Member States to support UNDP in reaching its regular resources targets and to commit, as early as possible, contributions to UNDP regular resources for 2011 and onwards, if possible through multi-year pledges; and (d) to recall the importance of funding predictability and timeliness of payments to avoid liquidity constraints in regular resources.

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I. Introduction

1. This report provides an overview of the financial position of UNDP at the end of 2010 with comparative figures for 2009 where available. The analysis of UNDP activities at the aggregate level is followed by analyses of regular or core resources, "other" or non-core resources, including for the United Nations Volunteers (UNV) programme, and the funds established by the General Assembly – the UNCDF, and other activities. This report contains figures for the entire year 2010 for UNIFEM, which was merged into UN-Women on 2 July 2010. Since the General Assembly resolution 64/289 states that UN-Women will become operational on 1 January 2011, this is the last time that UNIFEM shall feature in the present report. Annex I reflects an overview of the aggregate figures, and Annex II contains the definitions of the terms used in this document. Table 1 of the addendum to the present report (DP/2011/33/Add.1) continues with a summary of all activities undertaken by UNDP. The percentages in the body of the report reference data in the annexes.

2. In accordance with the recommendation made by the Executive Board in decision 2009/22, for the first time expenditures are reported in 2010 in four broad cost-classification areas: (a) development; (b) management; (c) United Nations development coordination; and (d) special purpose. In addition, other expenditures, which do not fall within the four broad cost classifications, are also reported as part of overall expenditures.

II. UNDP overall

3. At the aggregate level, UNDP saw a small yet significant increase in total income in 2010, combined with continued growth in expenditures. UNDP was funded by 18 per cent core resources and 78 per cent non-core resources, with 4 per cent pertaining to UNIFEM and UNCDF.

4. Total income is defined as the sum of contributions, interest income and other income. Total income increased to $5.95 billion, an increase of 3 per cent compared to the 2009 income of $5.79 billion. Total contributions increased by 3 per cent from $5.34 billion to $5.49 billion; interest income increased to $0.12 billion (from $0.10 billion in 2009); and other income increased to $0.36 billion (from $0.35 billion in 2009).

5. Contributions to core resources decreased by 5 per cent to $967 million, compared to $1.01 billion in 2009 and the 2010 target of $1.4 billion contained within the integrated financial resources framework of the strategic plan, approved by the Executive Board in its decision 2007/32.

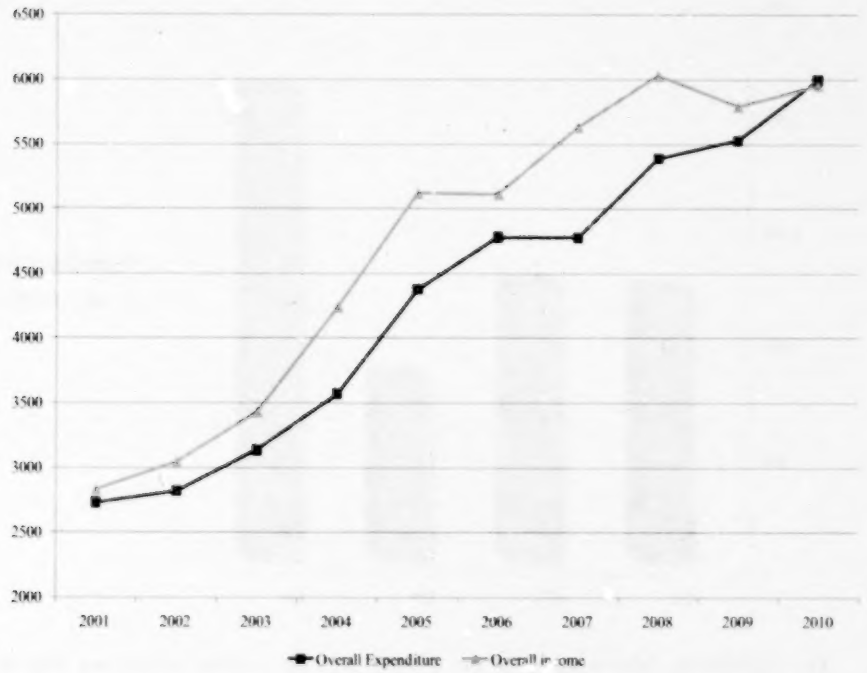
6. Non-core contributions reached a total of $4.31 billion, 4 per cent above the $4.13 billion reached in 2009. This increase is mainly attributable to programmes in countries facing special development situations. The contributions to these programmes grew by 44 per cent to $1.66 billion, compared to $1.15 billion in 2009. Bilateral contributions amounted to $1.76 billion, an increase of 13 per cent compared to $1.56 billion in 2009, with contributions for countries with special development situations growing from $633 million in 2009 to $1 billion. Non-core resources entrusted to UNDP by multilateral partners reached $1.74 billion, an increase of 12 per cent over the $1.55 billion of 2009, with contributions received for countries with special development situations growing from $495 million in 2009 to $614 million. Local resources, channelled through UNDP by programme country Governments and other local partners in support of their own national development, amounted to $0.69 billion, a decrease of 4 per cent compared to $0.72 billion in 2009.

7. Other resources are earmarked for specific programmes and activities and represent an important complement to the unearmarked regular resource base of UNDP. Regular resources contributions have dropped to a level which is equivalent to 22 per cent of other resources contributions, compared to 25 per cent in 2009. The

ability of UNDP to fulfil its mandate and to preserve its multilateral, impartial and universal character depends upon an adequate and secure regular funding base to support strategic and flexible management approaches focused on long-term effectiveness and sustainable development results.

8. Total expenditures continued to increase, growing by 8 per cent to $5.99 billion, from $5.53 billion in 2009. Of the $5.99 billion, $4.94 billion (82 per cent) was spent on development activities, $518 million (9 per cent) on management activities, $125 million (2 per cent) on United Nations development coordination activities, $220 million (4 per cent) on special purpose activities, and $190 million (3 per cent) on activities other than those that fall under the four broad cost classifications. Figure 1 below presents the trend of overall income and expenditures.

Figure 1. Overall income and expenditures, 2001 to 2010
(in millions of dollars)

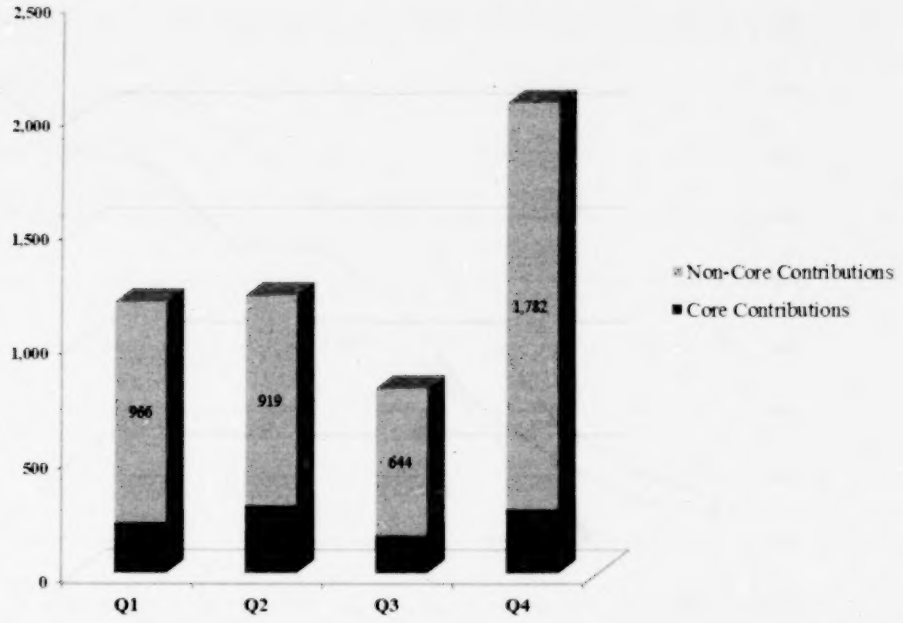


9. The overall balance of unexpended resources at the end of 2010 fell to $5.03 billion, from $5.19 billion in 2009. The $5.03 billion consisted of $283 million under regular resources, $4.49 billion under other resources, $53 million under UNCDF and $206 million under UNIFEM. As UNDP is required to operate on a fully funded basis for all other resources activities, the cash is held for discrete purposes, without commingling or "sharing" of balances for one project with another project, or fungibility of resources for commitment or disbursement of funds. A total of $1.78 billion, or 41 per cent of other resources contributions, were received in the last quarter, and thus can only be programmed for future years' delivery. The balance of unexpended regular resources also continued to drop: from $354 million in 2009 to $283 million. At this point in time, the majority of unexpended resources have been programmed and will be delivered in future years.

10. As shown in Figure 2 below, the majority of funds were received in the last quarter of 2010. Together with the decrease in the level of regular resources contributions received, this resulted in low liquidity at the end of third quarter, and UNDP acted swiftly to reduce planned core expenditures in order to maintain the

required liquidity ratio. The decrease in contributions was due mainly to reduced contributions in United States dollars and local currencies, as well as exchange rate movements. The effect of this was partially offset by UNDP hedging activity. At the end of 2010, the UNDP year-end liquidity position remained low, at approximately 3.1 months of working capital. This is close to the minimum threshold of liquidity requested by the Executive Board: three to six months of regular resources expenditures. Accordingly, UNDP did not draw from its operational reserve. Nevertheless, as other resources are not fungible, if UNDP planning is to be effective and results achieved, it is vital that Member States adhere to their commitments and do not delay their regular resource contributions.

Figure 2. Regular (core) and other (non-core) resources income by quarter, 2010
(in millions of dollars)

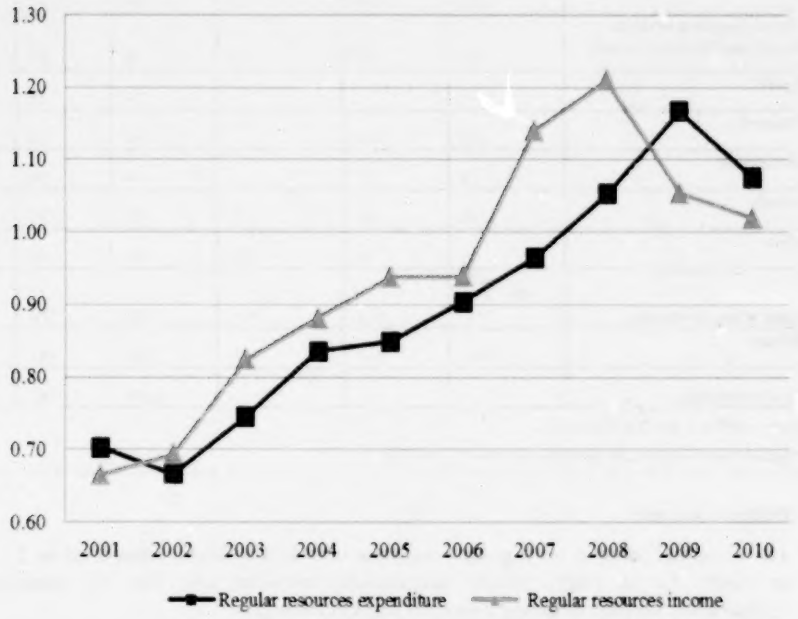


11. UNDP is fully committed to United Nations reform initiatives and to the optimization of its country-level coordination role in support of national development efforts. Total income for trust funds and joint programmes funded by multiple donors and managed by UNDP in its role as administrative agent decreased to $1.15 billion from $1.78 billion in 2009. This drop was due in large part to a reduction in contributions to the three largest multi-donor trust funds (MDTFs), two of which have fully allocated their resources and are winding down in the coming years. The $1.15 billion figure includes $612 million ($1.25 billion in 2009) for MDTFs and joint programmes for which UNDP serves as administrative agent, and $535 million for management and operational services provided by UNDP. In addition, UNDP provided $125 million for the United Nations development coordination activities.

III. Regular resources

12. For regular resources, total income inclusive of interest income and other income decreased by 3 per cent compared to 2009, from $1.05 billion to $1.02 billion. Although total expenditures decreased by 8 per cent from $1.17 billion to $1.08 billion. They exceeded total income (shown in Figure 3 below). As a result, the unexpended resource balance, exclusive of operational reserves, decreased to $283 million, from $354 million in 2009.

Figure 3. Regular resources income and expenditures 2001-2010
(in billions of dollars)



A. Income

13. Compared to 2009, total regular resources income inclusive of interest income and other income decreased by 3 per cent, from $1.05 billion to $1.02 billion.

Contributions

14. Regular resources contributions decreased by 5 per cent to $967 million, from $1.01 billion in 2009.

15. As shown in Table 1 below, contributions from the top 10 donors to regular resources decreased by 5 per cent in dollar terms to $786 million from $828 million in 2009. Whereas most bilateral donors maintained their contributions, some increased, including Australia, Belgium, Finland and the Republic of Korea. Seven of the Development Assistance Committee countries of the Organisation for Economic Co-operation and Development reduced their contributions in local currency. A total of 55 Member States contributed towards core resources including India at $5 million, the People's Republic of China at $4 million, and Saudi Arabia at $2 million, all of which maintained the same contributions as in 2009. Bangladesh, Egypt, Greece,

Kazakhstan, Lao People's Democratic Republic, Morocco, South Africa and Turkey all resumed contributions in 2010.

Table 1. Regular resources contributions from top 10 donors, 2009-2010

Donor	Contributions in local currency			Contributions in millions of dollars		
	2009	2010	Per cent change	2009	2010	Per cent change
Netherlands	90	90	-	122	121	-1
Norway	770	770	-	123	118	-4
United States of America				103	99	-4
Sweden	720	630	-13	91	88	-3
United Kingdom of Great Britain and Northern Ireland	58	55	-5	93	85	-9
Japan*				74	73	-1
Denmark	320	320	-	55	58	5
Switzerland	54	54	-	54	56	4
Canada	50	50	-	48	48	-
Spain	45	30	-33	65	40	-38
Total of top 10 donors	N/A	N/A	N/A	**828**	**786**	-5
Others	N/A	N/A	N/A	**186**	**181**	-3
Total resources				**1,014**	**967**	-5

Source: Table 7, DP/2011/33/Add.1.

* Japan's contributions are pledged and received in US$.

Interest income

16. Interest income on regular resources was $14 million, compared to $10 million in 2009. As in 2009, UNDP successfully avoided any loss of principal in its investments despite ongoing financial market volatility.

Other income

17. Other income, which mainly includes miscellaneous income and exchange gains, was $48 million, up from $38 million in 2009. The increase was in part due to currency revaluation and exchange rate gains.

B. Expenditure

18. In accordance with the recommendation made by the Executive Board in decision 2009/22, expenditures are reported in 2010 (for the first time) in the four broad cost-classification areas: (a) development; (b) management; (c) United Nations development coordination; and (d) special purpose. In addition, other expenditures, which do not fall under any of the four broad cost classifications, are also reported as part of overall expenditures.

19. Total regular resources expenditures decreased by 8 per cent, from $1.17 billion in 2009 to $1.08 billion.

Development expenditures

20. Expenditures on development, which includes programmes and development effectiveness activities, reached $627 million, of which $74.8 million was for development effectiveness activities. Development activities expenditures include $4 million for the Programme of Assistance to the Palestinian People (2009: $5 million).

21. A total of $108 million (17 per cent of total development expenditures) was spent in countries facing special development situations.

Management and Biennial support budget Expenditures

22. Net biennial support budget expenditures decreased by approximately 7 per cent, from $392 million to $363 million. This was in line with typical budgetary performance in the first year of a biennium, as investments endorsed by the Executive Board are spread over two years and deliberate measures are taken to reduce spending in the first year. The endorsed investments were undertaken in the areas of management (support to crisis prevention and recovery activities, knowledge management, and operational support in the Africa region) and development effectiveness (strengthened substantive response and contributions in the areas of climate change, Millennium Development Goals achievement, crisis prevention and recovery, and South-South cooperation). These investments were offset by budget reductions in other areas of the 2010-2011 biennial support budget.

23. For the 2010-2011 period, biennial support budget expenditures are reported using the categories endorsed by the Executive Board in decision 2009/22. By category, 62 per cent of the biennial support budget expenditures in 2010 was spent on management activities, 12 per cent on development effectiveness activities, 21 per cent on United Nations development coordination activities, and 5 per cent on special purpose activities.

24. Government contributions towards local office costs (GLOC) represent an important source of income by helping to defray biennial support budget costs for UNDP country offices. These contributions can be made as cash and/or as an in-kind donation. They also represent an acknowledgement by host Governments of the value they place on the UNDP country office presence.

25. The value of GLOC in-kind contributions increased slightly ($11 million) compared to 2009, (just under $11 million). GLOC cash contributions for 2010 increased by approximately $1 million (4 per cent) over 2009 levels to $26 million. The Administrator appreciates improvements made by many programme countries in meeting their GLOC obligations. In cases of non-compliance, however, UNDP will maintain the option of withholding a portion of institutional budget resources from countries with significant GLOC deficits.

United Nations development coordination expenditures

26. Expenditures on United Nations development coordination activities support the coordination of development activities of the United Nations system. The net expenditures on these activities amounted to a total of $94 million in 2010.

Special purpose expenditures

27. Net expenditures incurred on special purpose activities equaled $43 million. Special purpose activities represent cross cutting activities that are further classified into three groupings: General Assembly mandated activities, non-UNDP operations administered by UNDP, and capital investments. A total of $25 million was spent on General Assembly mandated activities, which include human resources contractual reform, United Nations mandated security costs and adoption of International Public Sector Accounting Standards (IPSAS). On non-UNDP operations administered by UNDP (UNV programme and UNCDF) $18 million was spent.

Other expenditures

28. Under the new cost classification system, other expenditures were $88 million.Of that amount, $46 million was due to the revaluation of currencies and exchange-rate fluctuations. As part of its preparations for IPSAS, UNDP is continuing its review of balances that have grown on balance sheet accounts over the past 15 to 20 years, making considerable progress in cleaning the data. This process is ongoing, and with further due diligence may result in the identification of expenditures for which funding is no longer available.

29. An independent consulting actuary undertook a valuation of After-Service Health Insurance (ASHI) benefits, as of 31 December 2009. On the basis of that study, the accrued liability estimates for UNCDF are $11 million; UNIFEM, $20 million; and UNDP, $430 million, totalling $461 million. The total accrued liability represents a decrease of $5 million below the $466 million estimated in the previous actuarial report of 31 December 2007. As of 31 December 2010, the ASHI reserve for UNDP alone is $429 million, and the unfunded liability stands at $34 million, which represents the difference between the accrued UNDP liability of $429 million and the projected ASHI reserve for 2010 of $463 million, as per the aforementioned actuarial report. The UNDP ASHI funding strategy established in 2001 aims at achieving full funding of the UNDP ASHI liability within 15 years. UNCDF and UNIFEM will fund their ASHI liabilities in future years.

30. As in prior years, the full ASHI liability is disclosed in a note to the financial statements. Upon the adoption of IPSAS in 2012, the full amount of the ASHI liability will be shown as a liability in the statement of financial position.

C. Balance of unexpended resources

31. The balance of unexpended regular resources, excluding the operational reserve, fell significantly to $283 million at the end of 2010, compared to $354 million in 2009. This represented 6 per cent of the overall balance of unexpended resources, a reduction from 7 per cent in 2009.

32. A significant amount of funds ($280 million or 29 per cent of contributions to regular resources) were received in the last quarter of 2010, a pattern which distorts the unexpended regular resources balance reported at year-end. In addition, specific cash balances are set aside for regulatory reasons such as for the operational reserve. In other cases, balances are earmarked for prudent management of future liabilities (e.g., ASHI). Other amounts are for routine operations, including the settlement of accounts payable, unliquidated obligations and inter-fund transactions with other United Nations agencies.

33. A prudent level of liquidity for UNDP regular resources would be the equivalent of expenditures for three to six months, implying a total liquidity of between $269 million and $538 million at the 2010 expenditure level. The decrease in regular resources contributions received, combined with the low level of contributions received in the first three quarters of 2010, resulted in low liquidity at the end of third quarter. Thus UNDP had to act swiftly to reduce planned core expenditures in order to maintain the required liquidity ratio. The decrease in contributions was due mainly to reduced contributions in US dollars and local currency, as well as exchange-rate movements. The effect of the latter was partially offset by UNDP hedging activity. However, at the end of 2010 the UNDP year-end liquidity position represented approximately 3.1 months of working capital, a decrease from the level of approximately 3.5 months at the previous year-end.

34. In accordance with Executive Board decision 1999/9, the formula for the calculation of the level of the UNDP regular resource operational reserve was amended on the basis of documents DP/1999/5/Rev.1 and DP/1999/CRP.9/Rev.1. Based on the final income and expenditure data for the year 2010, the operational reserve

will be adjusted downwards to a new level of $226 million, from $238 million. The $12 million will be transferred to the general resources of UNDP.

IV. Other resources

35. Other resources are composed of: cost sharing, trust funds, reimbursable support services, the Junior Professional Officer (JPO) programme and miscellaneous activities, such as management service agreements (MSAs). Reimbursable support services and miscellaneous activities are shown as "Others" in Figure 4 below.

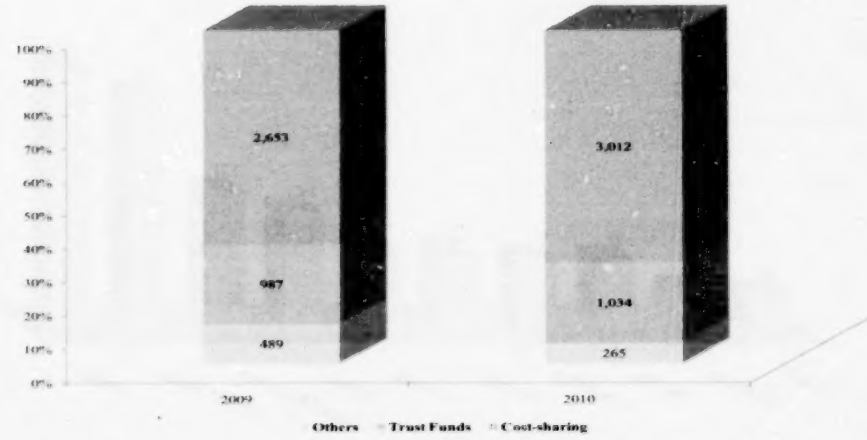
A. Income

36. Overall income for other resources increased by $193 million (4 per cent); from $4.52 billion in 2009 to $4.71 billion.

Contributions

37. Other resources contributions by funding mechanism for 2009-2010 are shown in Figure 4.

Figure 4. Other resources contributions by funding mechanism, 2009-2010
(in millions of dollars)



38. Other resources contributions totaled $4.31 billion, an increase of 4 per cent from $4.13 billion in 2009. A comparison of other resources contributions between 2009 and 2010, by funding source, is set out in Table 2 below.

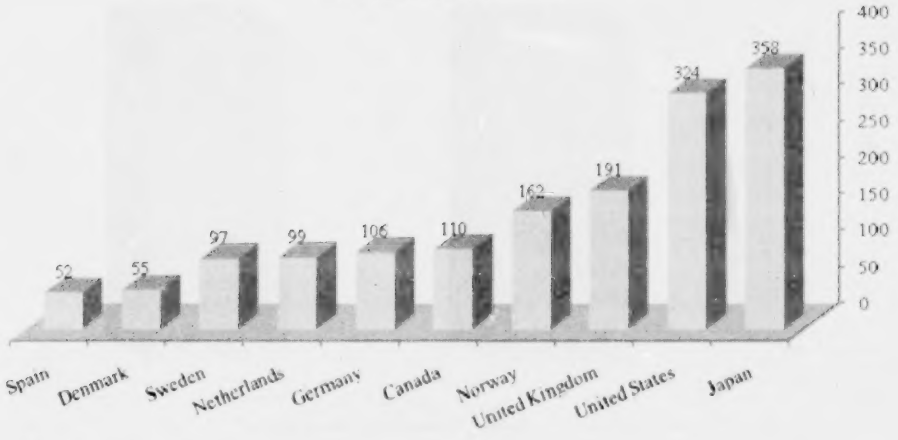
Table 2. Comparison of contributions by funding source, 2009-2010
(in billions of dollars)

Funding source	Contributions		
	2009	*2010*	*Per cent change*
Bilateral donors	1.56	1.76	13
Multilateral partner sources	1.55	1.74	12
Local resources	0.72	0.69	-4
Other sources	0.30	0.12	-60
Total	**4.13**	**4.31**	**4**

Bilateral donors

39. Other resources contributions received from bilateral donors increased 13 per cent to $1.76 billion, up from $1.56 billion in 2009. Figure 5 represents the top 10 bilateral donors that contributed to other resources in 2010.

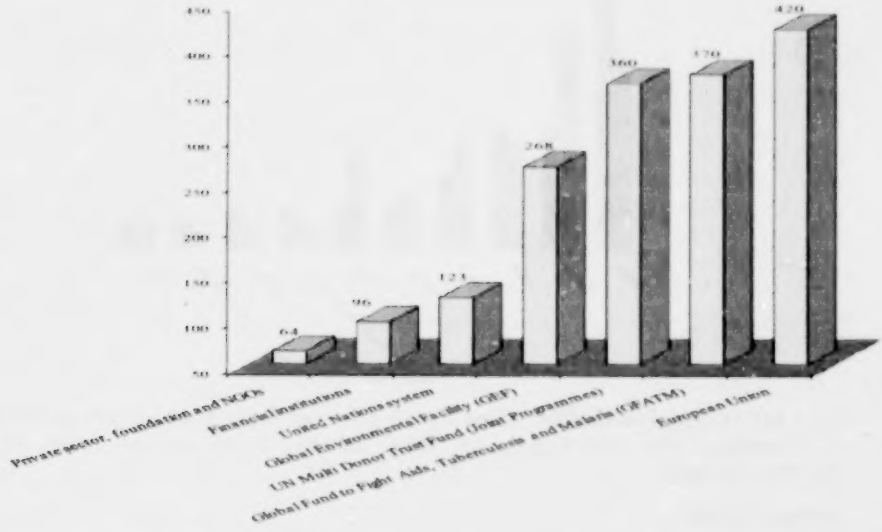
Figure 5. Other resources contributions, top 10 bilateral donors, 2010
(in millions of dollars)



Multilateral partner sources

40. Other resources entrusted to UNDP by multilateral partners have increased by 12 per cent to $1.74 billion, compared to $1.55 billion in 2009. Figure 6 represents the breakdown of multilateral partners that contributed to other donor resources in 2010.

Figure 6. Other resources contributions, multilateral partners, 2010
(in millions of dollars)



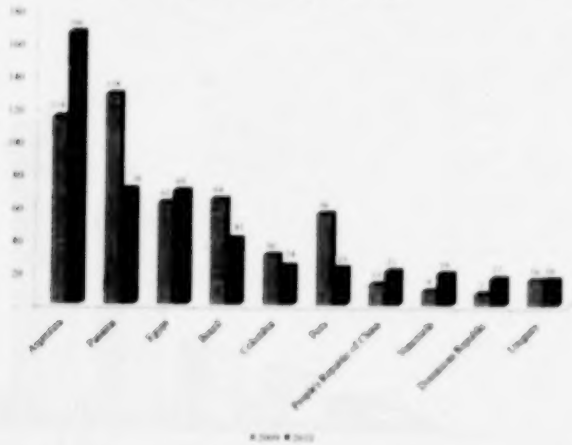
Local resources (Governments)

41. Contributions from local resources, excluding MSAs, represented 16 per cent of total other resources contributions received in 2010. This pool of resources decreased by 4 per cent, from $0.72 billion in 2009 to $0.69 billion, exceeding the rate of portfolio realignment called for within the strategic plan. This decrease was due in part to a shift in programmatic priorities, with offices gradually moving away from providing procurement services to delivering strategic advice, as envisaged in the strategic plan.

42. Of local resources contributions, 67 per cent came from the Governments of 10 programme countries (see Figure 7). Among the top 10 countries, Argentina, Egypt, Venezuela, Dominican Republic and China increased their contributions , and Brazil, Colombia, Peru, Panama and Uruguay decreased their contributions. As the number of contributing Member States increased, the percentage share of the top 10 countries to the total local resources continued to drop: from 78 per cent of the total in 2007, to 72 per cent in 2008, to 71 per cent in 2009 and to 67 per cent in 2010.

Figure 7. Local resources contributions (top 10 countries), 2009-2010

(in millions of dollars)



43. MSAs contributions decreased by 62 per cent, from $325 million in 2009 to $122 million. The distribution of MSA income is shown in Table 12 in DP/2011/33/Add.1.

Interest income

44. Interest income increased by 12 per cent from $92 million in 2009 to $104 million.

Other income

45. Other income was $297 million, the same level as in 2009. Other income was largely made up of: fees for support services; reimbursements for common services, other support services and field security provided for the United Nations Department of Safety and Security; and income from other funding sources.

B. Expenditures

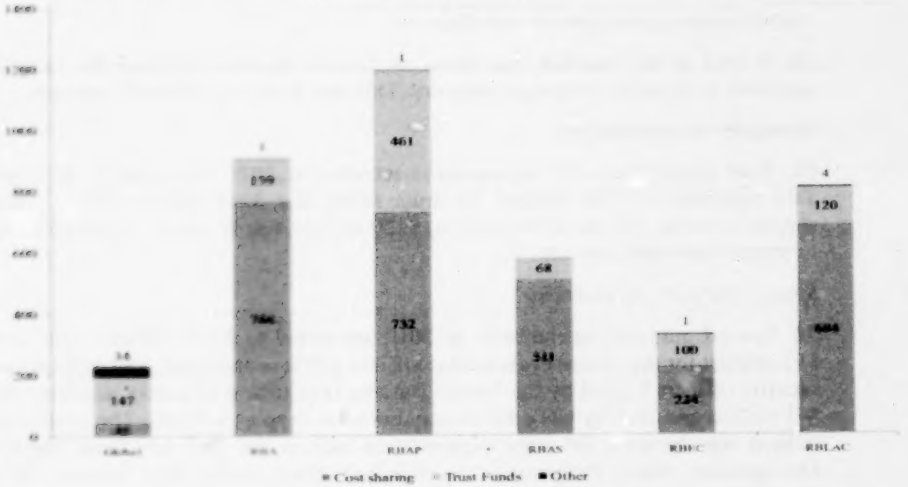
46. Overall expenditures of other resources amounted to $4.67 billion, a 12 per cent increase compared to $4.18 billion in 2009.

Development expenditures

47. Total expenditures for development activities equaled $4.09 billion, of which $73.7 million was for development effectiveness activities. Development expenditures by region, including MSAs (Global-Other), and excluding the Programme of Assistance to the Palestinian People, is shown in Figure 8 below. Development expenditures incurred for the Programme of Assistance to the Palestinian People amounted to $52.7 million.

Figure 8. Other resources: development expenditures by region, 2010

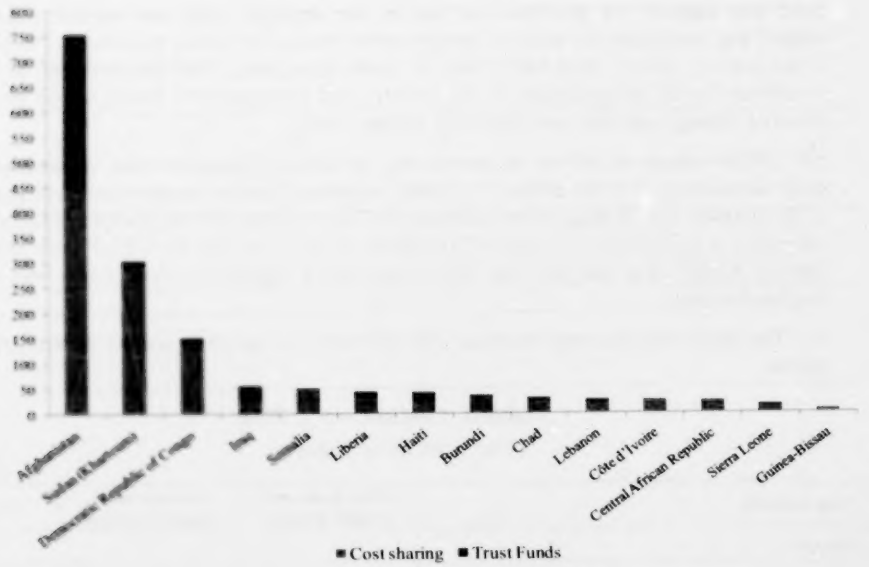
(in millions of dollars)



48. Of the total development expenditures of $4.09 billion, $1.56 billion (38 per cent) was incurred in the countries facing special development situations. As Figure 9 illustrates, Afghanistan accounted for the largest expenditure: $755 million, or 18 per cent of the total, of other resources development expenditures.

Figure 9. Other resources development expenditures: countries in special development situations, 2010

(in millions of dollars)



49. Of the development expenditures of $1.56 billion incurred in countries facing special development situations, $958 million (62 per cent) was funded by bilateral donors, $179 million (12 per cent) by the European Union, $136 million (9 per cent) funded by The Global Fund to Fight Aids, Tuberculosis and Malaria, $177 million (11

per cent) was funded from multi-donor trust funds, and $106 million (6 per cent) funded by other multilateral donors.

United Nations development coordination

50. A total of $32 million was spent on United Nations development coordination activities in the other resources category. This was funded by bilateral partners.

Management expenditures

51. Total expenditures for management activities in 2010 amounted to $272 million. This consisted of $26 million for trust funds and $246 million for reimbursable support services. Of the $246 million, $220 million was incurred on activities related to programmes and projects.

Special purpose expenditures

52. Special purpose expenditures in 2010 amounted to $177 million. This included $52 million for the Junior Professional Officer (JPO) programme, $80 million for field security officers funded by the United Nations Department of Safety and Security, and $11 million incurred by UNV for its reimbursable support services. The remaining $34 million was incurred for other expenditures such as the One UN Fund, the Change Management Fund, Programme Acceleration Fund, Avian and Human Influenza Coordination Fund and so forth.

Other expenditures

53. Other expenditures (as defined in the cost classification) in 2010 amounted to $102 million. Of this, $101 million was spent on common service activities in country offices.

C. Cost recovery policy

54. In line with decisions 2004/30 and 2007/18, whereby the Executive Board endorsed the recommendation that both regular resources and other resources should fund and support the priorities set out in the strategic plan and regular resources should not subsidize the costs of programmes funded by other resources, the UNDP cost-recovery policy establishes that all costs associated with the delivery of other resources-funded programmes at the country and Headquarters levels are to be fully covered through specific cost-recovery mechanisms.

55. UNDP makes all efforts to recover the general management and implementation costs associated with the delivery of other resources-funded programmes and projects at the country and Headquarters levels as well as to other United Nations entities. The objective is to recover the costs of providing services, so that the UNDP core biennial support budget does not bear the cost of providing support services that it was never intended to bear.

56. The total cost-recovery income and utilization in 2010 is shown in the Table 3 below.

Table 3. Cost recovery, 2010

(in millions of dollars)

Cost recovery	Programme and project delivery	Reimbursable support services	Total
Income:			
General management/implementation support services	237		237
Common services		107	107
Agencies reimbursable services	11	31	42
Interest	8		8

Administrative agent fees	5		5
Other	24		24
Total income	**285**	**138**	**423**
Expenditures:			
Staff/personnel costs	142	31	173
General operating expenses	78	93	171
Total expenditures	**220**	**124**	**344**

57. Total income increased by 7 per cent from $394 million in 2009 to $423 million. Total expenditures increased by 8 per cent from $318 million to $344 million. Included in the cost-recovery income of $285 million listed in Table 3 is the general management support income of $237 million from cost sharing and trust funds that is not included in the total other income of other resources. In the 2010-2011 biennial support budget document (DP/2010/3), UNDP reported on the exceptions granted on the cost-recovery policy. In 2010 UNDP has granted two additional general management support waivers: (i) a 0 per cent fee for a contribution to the Office of the United Nations Special Envoy for Haiti, and (ii) a reduced 4 per cent fee for a contribution to the Regional Multi-Donor Trust Fund for Tsunami, Disaster and Climate Preparedness administered by the Economic and Social Commission for Asia and the Pacific.

D. Balance of unexpended resources

58. The balance of unexpended other resources at the end of 2010 decreased by 1 per cent to $4.49 billion, compared to $4.55 billion at the end of 2009. Unexpended other resources represented 89 per cent of the overall balance of unexpended resources. The balance of unexpended resources consists of $2.49 billion ($2.48 billion in 2009) from cost sharing, $1.14 billion from trust funds ($1.19 billion in 2009), and $0.84 billion (0.86 billion in 2009) from reimbursable support services, with the remaining $0.02 billion from government cash counterpart contributions ($0.02 billion in 2009). Approximately 76 per cent of other resources amounts were fully programmed as of 31 December 2010 and will be delivered in future years.

59. The pattern of receipt of contributions influences the peak levels of cash at the year-end. In 2010, 41 per cent of other resources contributions were received in the fourth quarter. To illustrate, UNDP Afghanistan received 60 per cent ($144 million) of its total 2010 contributions of $238 million in the fourth quarter, and UNDP Sudan received 50 per cent, or $59 million, of its 2010 total contributions of $117 million in the fourth quarter. This pattern distorts year-end unexpended resource balances.

60. UNDP is required to operate on a fully funded basis for all other resources activities, per the financial regulations. In accordance with current partnership agreements, all project balances are fully segregated for accounting and reporting purposes. The cash is held for discrete purposes, with no commingling or "sharing" of balances between projects, or fungibility of resources for commitment or disbursement of funds. In addition, specific cash balances are set aside for regulatory reasons, such as the operational reserve. In other cases, balances are earmarked for prudent management of future liabilities (i.e., ASHI), or are held to meet the requirements of routine operations, such as to settle current liabilities.

61. UNDP concludes that the level of unspent balances is reasonable, taking into account the programme cycle, as well as the UNDP mandate and governance framework as approved by the Executive Board and as documented in the financial regulations and rules. However, looking forward UNDP will seek to develop an integrated resource framework with the intent of better coordinating core and non-core

resources. This framework would enable resources to be considered collectively, through the merger of the institutional and the programme budget, and within a unified framework of core and non-core resources. This should facilitate strategic resource planning, allocation and monitoring, as well as strengthen results-based resource allocation.

E. Others

United Nations Volunteers programme

62. In 2010, 7,765 volunteers, representing 158 nationalities, carried out 7,960 assignments in 132 countries. These operations were supported by UNDP regular resources, and amounted to $235 million. Of this, 9 per cent was covered from contributions made directly to UNV (special voluntary fund, cost sharing, trust funds and full funding arrangements). The rest was covered by direct charges to programmes of the United Nations and other United Nations organizations, funds and programmes, including UNDP.

Junior Professional Officer (JPO) programme

63. A total of 24 Governments had agreements with UNDP for the provision of JPOs in 2010. As of 31 December 2010, UNDP administered 364 JPOs and 39 Special Assistants to the Resident Coordinator (SARCs). This compared to 350 JPOs and 29 SARCs as of 31 December 2009. Of the 403 JPOs/SARCs, 224 worked with UNDP and affiliated funds, while UNDP administered 179 JPOs on behalf of other United Nations agencies and partners. Twenty-four per cent (57 JPOs/SARCs) of UNDP and affiliated JPOs/SARCs served in New York and at other headquarters locations.

64. UNDP received $45 million in contributions for the JPO programme, as compared to $57 million in 2009. Total expenditures including support costs increased to $52 million in 2010 from $47 million in 2009. The resource balance available at the end of 2010 was $31 million, a decrease from $38 million in 2009 ($28 million in 2008).

Reserve for field accommodation (RFA)

65. In 1979, a reserve of $25 million was established to finance the RFA, which provides housing for internationally recruited, UNDP-financed field personnel, and, exceptionally, office accommodation. The unexpended resource balance in 2010 of the RFA was $1.12 million, compared to $0.65 million in 2009. The RFA is now under review as part of a UNDP review of legacy balances and preparations for IPSAS. This may result in adjustments.

Direct budget support

66. Via decision 2009/24, the Executive Board endorsed, in principle, a four-year pilot (commencing September 2009) which allows UNDP financial contributions to pooled funding and to sector budget support, on a case-by-case basis upon the request of the recipient country, in accordance with the mandate and comparative advantage of UNDP, and in line with the guidance provided in DP/2009/36 and Corr. 1 and 2.

67. A request from the Government of Burkina Faso for UNDP participation in sector budget support was approved in 2009 for two projects in priority areas established by the Government: HIV/AIDS and human rights promotion. Each initiative falls within the core mandate of UNDP. The UNDP contribution to sector budget support in Burkina Faso for 2010 amounted to approximately $120,000 (depending on the exchange rate). This represented 1 per cent of the HIV/AIDS sector budget funds and 1 per cent of the human rights promotion sector budget funds. This amount is funded from regular resources and is below the cap of 10 per cent of the annual authorized spending limit of core funds contained in the resource planning framework established by the Executive Board.

V. United Nations reform and support to other United Nations organizations

68. In addition to its own operational activities, UNDP coordinates the United Nations system at a country level, and continues to play a vital role in forging development coherence. Based on the available data, the value of fund flows for multi-donor trust funds, joint programmes and support to other United Nations organizations totaled $1.15 billion, compared to $1.78 billion in 2009.

A. UNDP administrative agent function

69. UNDP continues to provide significant support to joint programming activities, through its role as administrative agent of joint programmes and MDTFs on behalf of the United Nations development system, and through its programme implementation role as a participating United Nations organization. The total value of contributions received by UNDP on behalf of the United Nations system for joint programmes and MDTFs was $610 million in 2010 (2009: $1.25 billion). This drop in contributions is in contrast to the previous upward trend and to the seven-year average annual contributions level of $714 million. The drop is a reflection of both the ongoing worldwide economic downturn and the reduction in contributions to the three largest MDTFs: the Millennium Development Goal Achievement Fund, the Expanded Delivering as One Funding Window and the Sudan Common Humanitarian Fund. Two of these funds have fully allocated their resources and will be winding down in the coming years. The total value of funds transferred by the MDTF Office, in its role as administrative agent for all participating organizations, was $969 million in 2010. This includes $357 million (2009: $283 million) in funds transferred to UNDP for UNDP programmes. The funds transferred incorporated a portion of the 2009 unspent balance of $1.23 billion.

B. Support to United Nations organizations

70. UNDP country offices provide operational support to other United Nations organizations. The funds for those services are recorded in agency services clearing accounts, which involved $531 million in fund flows to other United Nations organizations. This was a slight increase over 2009 ($528 million).

C. United Nations development coordination activities

71. UNDP plays important roles in United Nations system coordination and in country-level coordination in support of national development. United Nations development coordination activities are funded by both regular and other resources, and combined expenditures in 2010 were $126 million ($94 million for regular resources and $32 million from other resources). UNDP encourages Member States to continue to support this activity.

D. United Nations mandated security costs

72. In decision 2010/1, the Executive Board endorsed the proposal of the Administrator to grant exceptional authority, during 2010-2011, to access up to an additional 30 per cent ($17.4 million) of the $58 million from regular resources earmarked for security measures mandated by the United Nations.

73. The $58 million mentioned in paragraph 72 forms part of the total amount of $85 million reserved in 2010-2011 for security measures mandated by the United Nations, with the remaining $25 million provided from other resources, and $2 million from a credit from prior period overbillings by the United Nations Department of Safety and Security. In 2010, UNDP spent $33 million (2009: $39 million), including $11 million (2009: $10 million) in other resources. Of the $33 million spent in 2010, $17 million (2009: $21 million) was spent on the United Nations field security coordination

programme, and $16 million (2009: $18 million) on country office assessments of and investments in compliance with the minimum operating security standards, including at Headquarters.

VI. International public sector accounting standards (IPSAS)

74. The adoption of IPSAS was mandated in General Assembly resolution 60/283, and is essential for transparent financial reporting, strong accountability and good governance. IPSAS adoption will result in increased transparency through more complete disclosure and accounting of assets and liabilities, and improved management, tracking and reporting of financial and non-financial assets. Employee costs and associated obligations, such as annual leave and After-Service Health Insurance, will be recognized in full, and fully allocated to the respective funding sources of the activities from which they arise.

75. UNDP is on target for the adoption of IPSAS on 1 January 2012. Through the IPSAS programme, UNDP formulated most of its IPSAS policies, defined system changes, and commenced the transition and change-management processes, raising staff awareness, understanding and skills.

76. In decision 2008/1, the Executive Board approved $9 million from regular resources for the 2008-2009 biennium to cover the costs of introducing the IPSAS by the end of 2009. UNDP spent $5.2 million during the 2008-2009 biennium on preparations to adopt IPSAS. In addition, the Executive Board in its decision 2010/1 approved a total of $13 million for IPSAS-related activities during 2010-2011. This included $11 million for one-off project costs, such as policy formulation, systems configuration and reporting, and global training. The remaining $2 million went to fund new positions, for a period of six months, which were required to do the additional work required to adopt IPSAS. These positions will be required on an ongoing basis. UNDP spent $1.8 million in 2010 on the required preparations to adopt IPSAS.

77. To ensure the most efficient means of compliance with IPSAS, UNDP is establishing a global shared service centre (GSSC) to centralize the recording of complex IPSAS-related functions on behalf of UNDP country offices, and to provide support to them to ensure a successful transition to and ongoing compliance with IPSAS. The choice to centralize these functions was made following a cost-benefit analysis, and represents the most efficient option for addressing the complexity of IPSAS. The decision to establish the GSSC, including the location, was made on the basis of a comprehensive study carried out by an independent consulting firm. The decision was based on a few key factors, including the availability of skills and cost. Negotiations are currently under way with the government of the selected location. It is anticipated that the GSSC will be operational by 1 January 2012.

VII. Funds administered by UNDP

78. Table 5(a) in the addendum to the present report (DP/2011/33/Add.1) provides detailed data for the two funds administered by UNDP.

A. United Nations Capital Development Fund

79. In 2010, UNCDF operated in 40 of the 49 least developed countries, focusing particularly on post-conflict countries. Total contributions in 2010 amounted to $38 million, ($35 million in 2009). This included a slight decrease in the volume of regular resources due to exchange rates and a significant reduction by one major donor because of the fiscal crisis. It also included a substantial increase in other resources. The overall resource outlook remains positive, especially in terms of volume and diversification of other resources.

80. Total programme expenditures remained constant at $40 million (. Other resources expenditures accounted for 44 per cent of total programme resources. All programme expenditures were joint programmes with UNDP. UNCDF also disbursed $230,000 in loans (together with $10 million in grants, already reflected in expenditures) to microfinance institutions in Timor-Leste. The total operational reserve for both UNCDF core and non-core remained at $25 million. Accordingly, UNCDF was able to deliver its planned development, management and financial results while sustaining its liquidity.

81. The total of $40 million of programme expenditures excludes $3 million allocated to UNCDF by UNDP in accordance with Executive Board decision 2007/34. This amount was fully expended by UNCDF but is being recorded and reported separately by UNDP. In addition, there was $10 million in the UNDP biennial support budget for UNCDF management expenditures.

B. United Nations Development Fund for Women

82. UNIFEM was merged into UN-Women on 2 July 2010. However, since the UN-Women founding resolution, General Assembly resolution 64/289, states that UN-Women will become operational on 1 January 2011, the figures hereunder cover the entire year 2010 for UNIFEM.

83. UNIFEM provides financial and technical assistance to innovative programmes and strategies to foster women's empowerment and gender equality. Placing the advancement of women's human rights at the centre of all its efforts, UNIFEM focuses its activities on four strategic areas: (a) reducing poverty among women; (b) ending violence against women; (c) reversing the spread of HIV/AIDS among women and girls; and (d) achieving gender equality in democratic governance in times of peace as well as war.

84. Total contributions to UNIFEM increased by $6 million or 4 per cent to $171 million, up from $165 million in 2009. Voluntary contributions increased by $13 million or 21 per cent, and cost-sharing by $6 million or 8 per cent, while sub-trust funds decreased by $12 million or 43 per cent.

85. Programme expenditures increased by $56 million, or 46 per cent, to $179 million, up from $123 million in 2009. Regular resources expenditures increased to $80 million in 2010, up from $49 million in 2009, an increase of $31 million or 63 per cent. Cost-sharing expenditures increased by $18 million or 32 per cent to reach $71 million, up from $53 million in 2009. Sub-trust fund expenditures increased by $8 million or 39 per cent to reach $29 million, up from $21 million in 2009.

86. Unexpended resources at 31 December 2010 were $206 million, a decrease of $22 million from the $228 million of 31 December 2009. These resources at December 2010 are fully supported by approved project budgets. The level of the operational reserve was reviewed in accordance with Executive Board decision 97/4 of January 1997, and the reserve was increased to $21 million as at 31 December 2010, from $20 million at 31 December 2009.

Annex I
UNDP overview

A. Statement of income and expenditures for the year ended 31 December 2010, with comparative figures for 2009

(in thousands of dollars)

	Regular resources			Other resources			Funds			a/ Total		
	2010	2009	+/-	2010	2009	+/-	2010	2009	+/-	2010	2009	+/-
Income												
Contributions	967,132	1,013,599	-5%	4,311,319	4,129,137	4%	209,235	199,738	5%	5,487,686	5,342,474	3%
Less: transfer to biennial support budget	(9,632)	(8,671)	-11%	-	-		-	-	-	(9,632)	(8,671)	-11%
Contributions – net	**957,500**	1,004,928	-5%	**4,311,319**	4,129,137	4%	**209,235**	199,738	5%	5,478,054	5,333,803	3%
Interest income	14,165	10,173	39%	103,661	92,306	12%	1,438	2,127	-32%	119,264	104,606	14%
Other income – net	48,084	38,480	25%	297,127	297,389	-	11,495	16,678	-31%	356,706	352,547	1%
Total income	**1,019,749**	1,053,581	-3%	**4,712,107**	4,518,832	4%	**222,168**	218,543	2%	5,954,024	5,790,956	3%
Expenditures												
Development	626,849			4,092,353			219,564			4,938,766		
UN development coordination	93,752			31,705			-			125,457		
Management	224,082			271,771			22,226			518,079		
Special purpose	43,430			176,908			-			220,338		
Other expenditures	87,733			101,795			140			189,668		
Total expenditures	**1,075,846**	1,166,574	-8%	**4,674,532**	4,177,244	12%	**241,930**	182,988	32%	5,992,308	5,526,806	8%
Excess (shortfall) of income over expenditures	**(56,097)**	(112,993)	50%	**37,575**	341,588	-89%	**(19,762)**	35,555	-156%	(38,284)	264,150	-114%
Savings on obligations of prior biennium	596	15,682	-96%	-	-	-	-	-	-	596	15,682	-96%
Transfer (to) from reserves	(16,000)	(14,000)	-14%	(2,000)	(5,000)	60%	(1,390)	(6,910)	80%	(19,390)	(25,910)	25%
Refunds to donors and transfers (to) from other funds	(48)	(32,879)	100%	(99,062)	(85,878)	-15%	(799)	(2,098)	62%	(99,909)	(120,855)	17%
Adjustments to reserves and fund balances								1,982	-	-	1,982	-
Fund balances, 1 January	354,412	498,602	-29%	4,550,006	4,299,296	6%	280,690	252,161	11%	5,185,108	5,050,059	3%
Fund balances, 31 December	**282,863**	354,412	-20%	**4,486,519**	4,550,006	-1%	**258,739**	280,690	-8%	5,028,121	5,185,108	-3%

Source: Table 1(a), DP/2011/33/Add.1.

a/ Includes General Management Support service cost.

B. Assets, liabilities and reserves and fund balances as at 31 December 2010, with comparative figures for 2009

(in thousands of dollars)

	Regular resources			Other resources			Funds			Total		
	2010	2009	+/-	2010	2009	+/-	2010	2009	+/-	2010	2009	+/-
Assets												
Cash	53,904	25,929	108%	30	34	-12%	3,554	6,404	-45%	57,488	32,367	78%
Cash and investments - funds held in trust	847,956	1,324,804	-36%							847,956	1,324,804	-36%
Government letters of credit				49,195	108,460	-55%				49,195	108,460	-55%
Investments held for:												
Operational reserve	238,000	222,000	7%							238,000	222,000	7%
Reserve for After-Service Health Insurance	429,268	373,276	15%							429,268	373,276	15%
Regular resources	142,746	602,527	-76%	7,230	492,446	-99%	361,807	343,405	5%	511,783	1,438,378	-64%
Other resources	4,688,388	4,266,293	10%							4,688,388	4,266,293	10%
Medical insurance plan	48,283	45,073	7%							48,283	45,073	7%
Subtotal investments	5,546,685	5,509,169	1%	7,230	492,446	-99%	361,807	343,405	5%	5,915,722	6,345,020	-7%
Total cash, letters of credit and investments	6,448,545	6,859,902	-6%	56,455	600,940	-91%	365,361	349,809	4%	6,870,361	7,810,651	-12%
Advances from Governments and executing agencies	11,834	22,269	-47%	135,297	125,452	8%	1,050	668	57%	148,181	148,389	-
Accounts receivable and deferred charges	17,371	29,017	-40%	29,340	24,167	21%	1,685	1,286	31%	48,396	54,470	-11%
Funds due from core resources				4,730,611	4,378,995	8%		4,810		4,730,611	4,383,805	8%
Funds due from other resources	42,763	118,644	-64%							42,763	118,644	-64%
Funds due from UNOPS, UNFPA and UN current account	185,668	-								185,668	-	
Accrued interest	29,897	34,360	-13%	22,199	21,742	2%	2,474	2,394	3%	54,570	58,496	-7%
Loans							5,169	5,168		5,169	5,168	-
Special capitalized assets	1,570	1,570	-	1	-					1,571	1,570	-
Reserve for field accommodation activities				34,741	34,844	-				34,741	34,844	-
Total assets	**6,737,648**	**7,065,762**	-5%	**5,008,644**	**5,186,140**	-3%	**375,739**	**364,135**	3%	**12,122,031**	**12,616,037**	-4%
Liabilities												
Advances to Governments and executing agencies	1,213	2,267	-46%	8,601	16,087	-47%	907	850	7%	10,721	19,204	-44%
Unliquidated obligations	37,617	53,313	-29%	213,131	239,539	-11%	9,104	6,734	35%	259,852	299,586	-13%
Accounts payable	120,488	127,217	-5%	138,138	135,242	2%	26,119	5,634	361%	284,745	268,093	6%
Funds due to other resources & funds	4,730,524	4,383,806	8%							4,730,524	4,383,806	8%
Funds due to core resources by other resources & funds				8,200	93,187	-91%	34,563	25,457	36%	42,763	118,644	-64%
Funds due to UNOPS, UNFPA and UN current account	-	163,502								-	163,502	
Deferred liability - funds held in trust	895,389	1,383,254	-35%							895,389	1,383,254	-35%
Deferred liability - After-Service Health Insurance	429,269	373,276	15%							429,269	373,276	15%
Other liabilities	715	1,145	-38%	16,060	16,079	-	707	561	26%	17,482	17,785	-2%
Total liabilities	6,215,215	6,487,780	-4%	384,130	500,134	-23%	71,400	39,236	82%	6,670,745	7,027,150	-5%
Reserves and fund balances												
Operational reserve	238,000	222,000	7%	109,995	108,000	2%	45,600	44,209	3%	393,595	374,209	5%
Endowment fund				3,000	3,000					3,000	3,000	-
Reserve for field accommodation authorized level				25,000	25,000					25,000	25,000	-
Special capital resources	1,570	1,570								1,570	1,570	-
Balance of unexpended resources	**282,863**	**354,412**	-20%	**4,486,519**	**4,550,006**	-1%	**258,739**	**280,690**	-8%	**5,028,121**	**5,185,108**	-3%
Balance of unexpended resources and special capital resources	284,433	355,982	-20%	4,486,519	4,550,006	-1%	258,739	280,690	-8%	5,029,691	5,186,678	-3%
Total liabilities, reserves and balance of unexpended resources	**6,737,648**	**7,065,762**	-5%	**5,008,644**	**5,186,140**	-3%	**375,739**	**364,135**	3%	**12,122,031**	**12,616,037**	-4%